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Jobs, Growth, and the Washington Connection

by Tim Kane, Ph.D., and Andrew Grossman

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April was another strong month for jobs. According to Department of Labor numbers out this morning, the economy added 274,000 payroll jobs in April—across a myriad of industries—and the unemployment rate held steady at a low 5.2 percent. The timing of this report, coming the day after the Treasury made news by announcing that tax receipts are well ahead of schedule and that the deficit could fall well below projections for the year, makes a strong point that is too often forgotten in Washington: the national economy is the engine that powers all public policy. Policies that boost economic growth and jobs reverberate across the board and strengthen Congress's ability to make the best decisions.

A Solid Year

One year ago, the unemployment rate was at 5.5 percent, and most analysts took that historically low rate as an encouraging sign. With unemployment below the average rate during the Clinton Administration—indeed, even below the average rates for the 1990s, 1980s, and 1970s—the job market seemed to be showing its resurgent strength.

Still, naysayers caught up in the year's politics sounded the alarms: if payroll employment didn't show major gains and soon, unemployment would begin to grow. Time has proven them wrong. Instead of the unemployment rate and the household survey on which it is based snapping into place behind lackluster payroll numbers, the payroll number's growth accelerated to match the low unemployment rate and the gains in the household survey. Payroll jobs have increased about 2 million since this time last year. Meanwhile, unemployment has dipped further, down to the current 5.2 percent, which many economists consider not too much above the natural rate of unemployment in a healthy economy. Do recent gains in the household survey portend another strong streak in payrolls?

The data from this month bear may provide an answer. The April employment situation report released this morning by the Department of Labor is a bombshell: payrolls grew by 274,000 last month and the March figure was revised up strongly as well. That's a good response to the household survey that now shows, after an April gain of 589,000, a total of 141.1 million Americans working—more than ever before. Over the last two months, total employment is up nearly one million, and over the year, it is up by 2.5 million.

Dig deeper into the April report, and the data just get better. This is the kind of employment news that sparks a turnaround in soft variables like consumer confidence and is likely to spark a Wall Street rally as well.

Consider worker discouragement. The usual pessimistic counter-argument to strong numbers is that workers are discouraged, leaving the labor force, and therefore not counted as unemployed. But how does that square with the official report, which states clearly, “The number of discouraged workers, at 393,000 in April, declined over the year.” As for the labor force, it “increased by 605,000 in April to 148.8 million; the labor force participation rate, at 66.0 percent, also was up over the month.”

Consider as well April’s addition of 47,000 jobs in construction, continuing that sector’s rapid growth over the past two years. Growth in construction reflects solid consumer confidence and optimism that the economy will continue to perform in the months and years ahead.

The Policy Connection

It is too easy for Washington lawmakers to forget that their every move is predicated on the continued vitality of the American economy. From the war in Iraq to Social Security reform to homeland security, none of what Congress does would be possible but for the powerhouse that is the American economy. But this relationship runs both ways: at the same time that growth and prosperity fuel government, government has the power to take the economy down a notch or two or more. Lawmakers too often overlook this risk, which threatens not only their ability to pursue pet projects as well as vital national interests, but also the optimism and opportunities of ordinary Americans.

Still, the connection that many lawmakers make most quickly is with the money flowing into the Treasury’s coffers. In the most recent quarter, tax receipts are $54 billion stronger than the Treasury expected. In response, deficit projections are dropping. The Administration expected to close the 2005 fiscal year $427 in the red, but Wall Street analysts are now pegging that figure at closer to $370 billion. Some even expect further drops.

To be sure, that is still a lot of money and reflects a level of government spending that is far higher than it ought to be. These numbers also illustrate, however, the direct effect that the economy has on the government’s ability to pursue its policy priorities. Every extra point of growth and additional job created by the private sector gives the entire economy greater strength and flexibility. This is part of the reason why Congress must keep a pro-growth agenda in mind as it weights competing policies.

This year, the President’s leadership has brought two major pro-growth initiatives to the fore. The first is Social Security reform. By allowing individuals to keep a portion of their payroll taxes for themselves in personal accounts, the President’s reform proposal would given individuals a greater incentive to work and stoke the labor supply significantly, according to research by Nobel laureate economist Edward Prescott. The second initiative is tax reform. Any reform of today's horribly complex tax code—and especially reforms that lead to flatter rates, fewer deductions, and less double taxation—would reduce the compliance costs and deadweight losses that today's tax system imposes on the economy.

The first Friday of every month, when the Department of Labor releases its jobs numbers, is a good day for lawmakers to take stock of their efforts over the past month and think about what they've done to accelerate or hold back the economy. April's numbers are good, but they could still be even better. How much better, to some extent, Congress gets to decide.

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